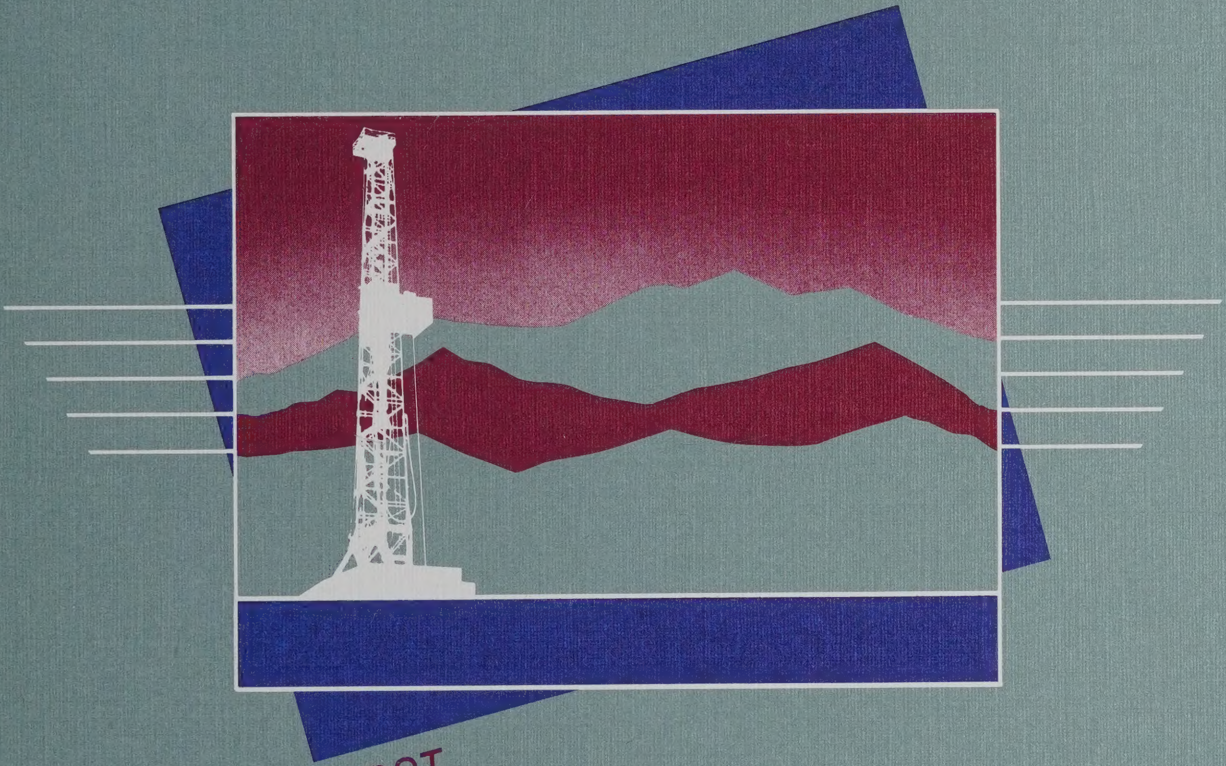


FIRST DEVONIAN EXPLORATIONS LTD.

1985

ANNUAL REPORT

First Devonian Explorations Ltd. is a Calgary based Canadian controlled Company whose business is the exploration for, and the development and production of petroleum and natural gas reserves. The Company is primarily involved in Western Canada and the United States.

First Devonian has evolved from a non-operating low interest holding entity to one which both operates and has, in many cases, a controlling interest in its programs. Prospects are usually generated by the Company and then outside participants are brought in who provide carried interests to First Devonian.

CORPORATE INFORMATION

HEAD OFFICE

Suite 380
622 - 5th Avenue S.W.
Calgary, Alberta
T2P 0M6

(403) 264-4405

DIRECTORS

Steven P. Dobrowolski
Gary W. Selby
R. Gordon Cormie
Robert G. Jennings
Alan G. Thompson

OFFICERS

Steven P. Dobrowolski
President

Gary W. Selby
Vice-President

R. Gordon Cormie
Secretary-Treasurer

LEGAL COUNSEL

MacKimmie Matthews
Calgary, Alberta

AUDITORS

Collins Barrow
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Royal Trust Corporation of Canada
Calgary, Alberta

BANKER

Mercantile Bank of Canada
Calgary, Alberta

STOCK EXCHANGES

Alberta Stock Exchange (FDI)

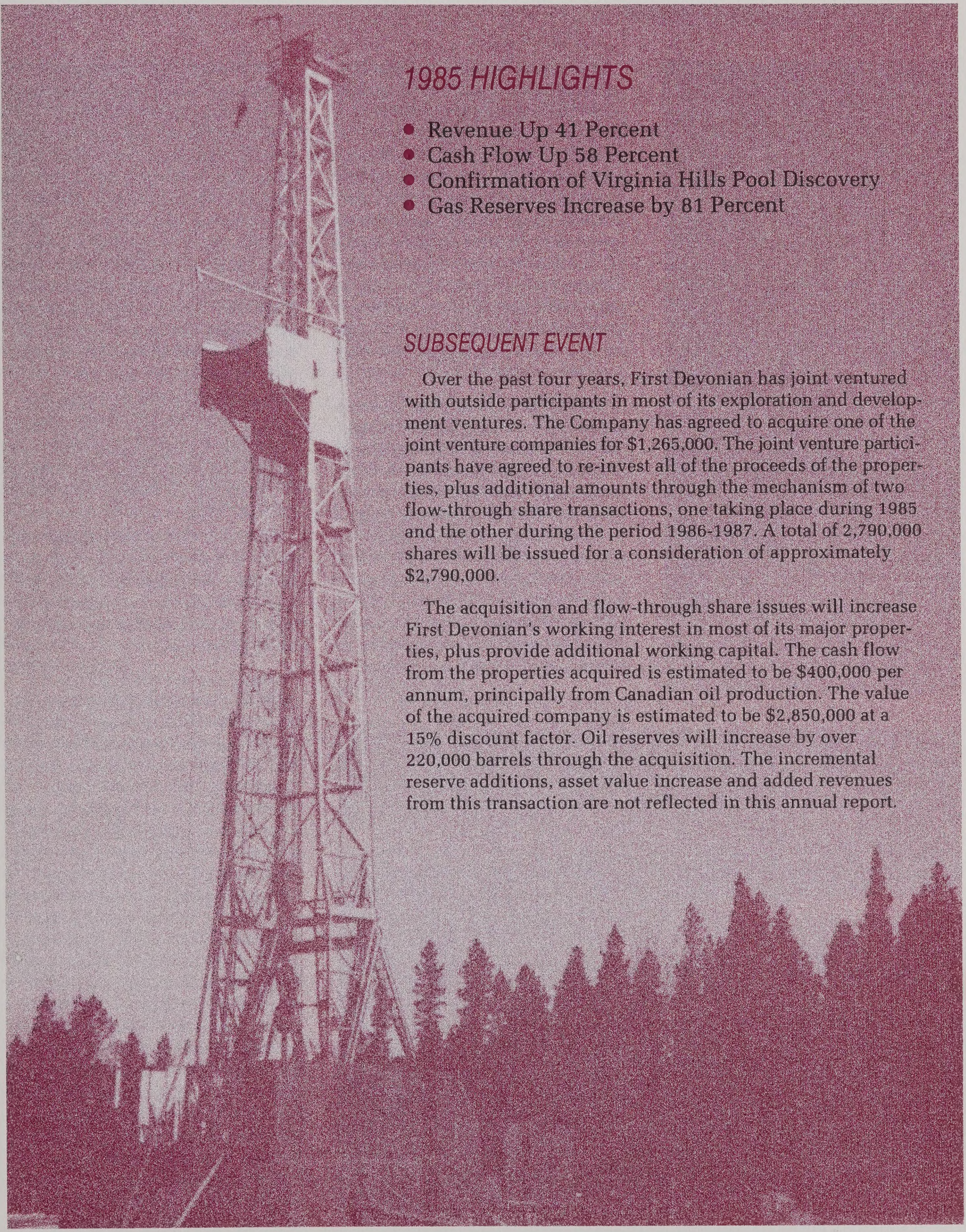
Vancouver Stock Exchange (FDI)

ANNUAL MEETING

You are cordially invited to attend the Company's Annual Meeting to be held at 9:00 a.m. on Monday, December 30, 1985 in the Banff Room of the Westin Hotel, 320 - 4th Avenue S.W., Calgary, Alberta.

ABBREVIATIONS USED:

Bcf — Billion Cubic Feet
MMcf — Million Cubic Feet
Mcf — Thousand Cubic Feet
10^3m^3 — Thousand Cubic Metres
m^3 — Cubic Metre



1985 HIGHLIGHTS

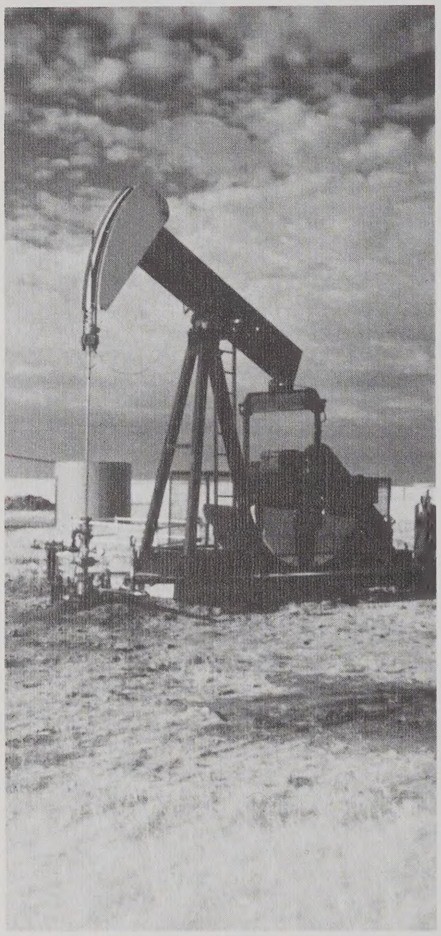
- Revenue Up 41 Percent
- Cash Flow Up 58 Percent
- Confirmation of Virginia Hills Pool Discovery
- Gas Reserves Increase by 81 Percent

SUBSEQUENT EVENT

Over the past four years, First Devonian has joint ventured with outside participants in most of its exploration and development ventures. The Company has agreed to acquire one of the joint venture companies for $1,265,000. The joint venture participants have agreed to re-invest all of the proceeds of the properties, plus additional amounts through the mechanism of two flow-through share transactions, one taking place during 1985 and the other during the period 1986-1987. A total of 2,790,000 shares will be issued for a consideration of approximately $2,790,000.

The acquisition and flow-through share issues will increase First Devonian's working interest in most of its major properties, plus provide additional working capital. The cash flow from the properties acquired is estimated to be $400,000 per annum, principally from Canadian oil production. The value of the acquired company is estimated to be $2,850,000 at a 15% discount factor. Oil reserves will increase by over 220,000 barrels through the acquisition. The incremental reserve additions, asset value increase and added revenues from this transaction are not reflected in this annual report.

REPORT TO SHAREHOLDERS



First Devonian Explorations Ltd. participated in the drilling of a total of 26 wells during fiscal 1985. The Company operated 16 of the 18 wells drilled in Canada. This aggressive exploration and development program has resulted in another increase in our revenue stream and asset value. In reviewing the events of fiscal 1985 for our Shareholders that are of significance to the Company, we will endeavour to illustrate how the Company is evolving into an entity that is positioned for long term growth.

Two of the most important results of our 1985 drilling program were the confirmation of Virginia Hills as a significant pool discovery and the addition of large gas reserves in southern Alberta which are close to an existing production infrastructure. Our inventory of development locations remains very large and the Company will also judiciously expose itself to certain in-house generated exploration opportunities over the next year.

Over 94 percent of the Company's oil reserves and 98 percent of the gas reserves are located in Canada, principally in Alberta. Oil reserves dropped slightly from 751,600 barrels to 710,400 barrels due to production and a more conservative appraisal of our principal properties by an independent engineering firm dated November 12, 1985. Since our fiscal year end of July 31, 1985, oil reserves have increased due to successful wells drilled in the Judy Creek and Virginia Hills areas. Gas reserves increased dramatically from 1.920 Bcf to 3.478 Bcf.

First Devonian's asset value of reserves, undeveloped land and plant including 50 percent of probable values as at July 31, 1985 at a 15 percent discount factor was estimated to be $11,586,000 as compared to $9,310,000 for the previous year. Per share asset value, net of debt and working capital deficiency, is now $2.01. Last years comparable per share value was $2.28. The decrease experienced was principally due to more conservative estimates of oil reserves and significantly lower pricing forecasts. The issuance of equity by way of flow through shares and employee stock options being exercised also diluted the Company's asset value per share by a small amount.

Total revenues of $1,369,889 were up by 41 percent over the comparable period of last year. Cash flow of $515,633 was up by 58 percent while net income of $122,039 was up by 63 percent.

Cash flow per share of 14¢ fell short of our expectations of 15¢ to 20¢. This was due to recurring shut-in oil production in the Virginia Hills, Swan Hills and Judy Creek areas due to inaccessible road conditions, and operating costs which were somewhat higher than anticipated. With poor road conditions in these areas continuing through the fall, we expect that our first quarter will also be effected. In order to solve the accessibility problem we anticipate that we will build a pipeline to as many wells as possible. To date two isolated wells, one in Judy Creek and one in Swan Hills, have been pipelined, but the main project in Virginia Hills remains to be completed. Pipelining will also reduce operating expenses dramatically, principally through reducing trucking and equipment rental expenses. Once our oil production is tied in and on full production, our cash flow

per share should be 20¢ per share on an annualized basis. Improvement to this figure can also be expected due to ongoing development drilling. A further incremental 10¢ per share per annum or greater will be realized when our gas production comes on stream. This is now anticipated to occur by July 1, 1986. Total cost to First Devonian of building a gas plant and the oil pipeline is approximately $200,000. Placing our gas wells on production should increase the overall stability of our revenue stream.

The most difficult aspect of financing in the oil and gas industry today is finding the proper balance between equity and debt financing. Due to very conservative market versus asset values, companies are often forced to take rather onerous terms in equity financing including significant dilution. Debt financing, while being less dilutive, also has risks even if a company is successful, due to commodity pricing and interest charges.

The recently announced Alberta Stock Savings Plan addresses some of these concerns but obviously will not completely compensate for the current fundamental weakness of the oil and gas market. Once cash flow figures allow the Company to internally finance its operations, dilution and the risk of debt financing will not have to be faced by the Company. Acceleration of our growth to this level is now our principle goal. We believe that the fundamental economics of oil and gas exploration and development remain particularly attractive in Canada and that we will therefore continue to show financial growth.

First Devonian's philosophy of both generating and operating projects in which the Company has a large working interest, continues to derive benefits for the Company including: carried working interests from industry and joint venture participants, operator's fees which assist in defraying general and administrative expenses, continual improvement of in-house expertise in specific areas through a hands-on approach, and Company control of both the timing and level of expenditures in different areas.

Over the last year, the Company successfully developed significant additions to gas reserves and commenced operations of an oil processing plant at Judy Creek. The long term nature of our reserves has also been further enhanced by the expectation that our major property at Virginia Hills is an excellent candidate for potential secondary recovery schemes which would extend its reserve life. This report details the evolution of this property for our Shareholders.

Since fiscal 1985 was especially active for First Devonian as operator of most of our programs, additional demands were made on the staff of the Company to perform. Our thanks are offered for their commitment and successful efforts. We trust that our Shareholders will be pleased with First Devonian's performance and believe that they can look forward to further improvements.

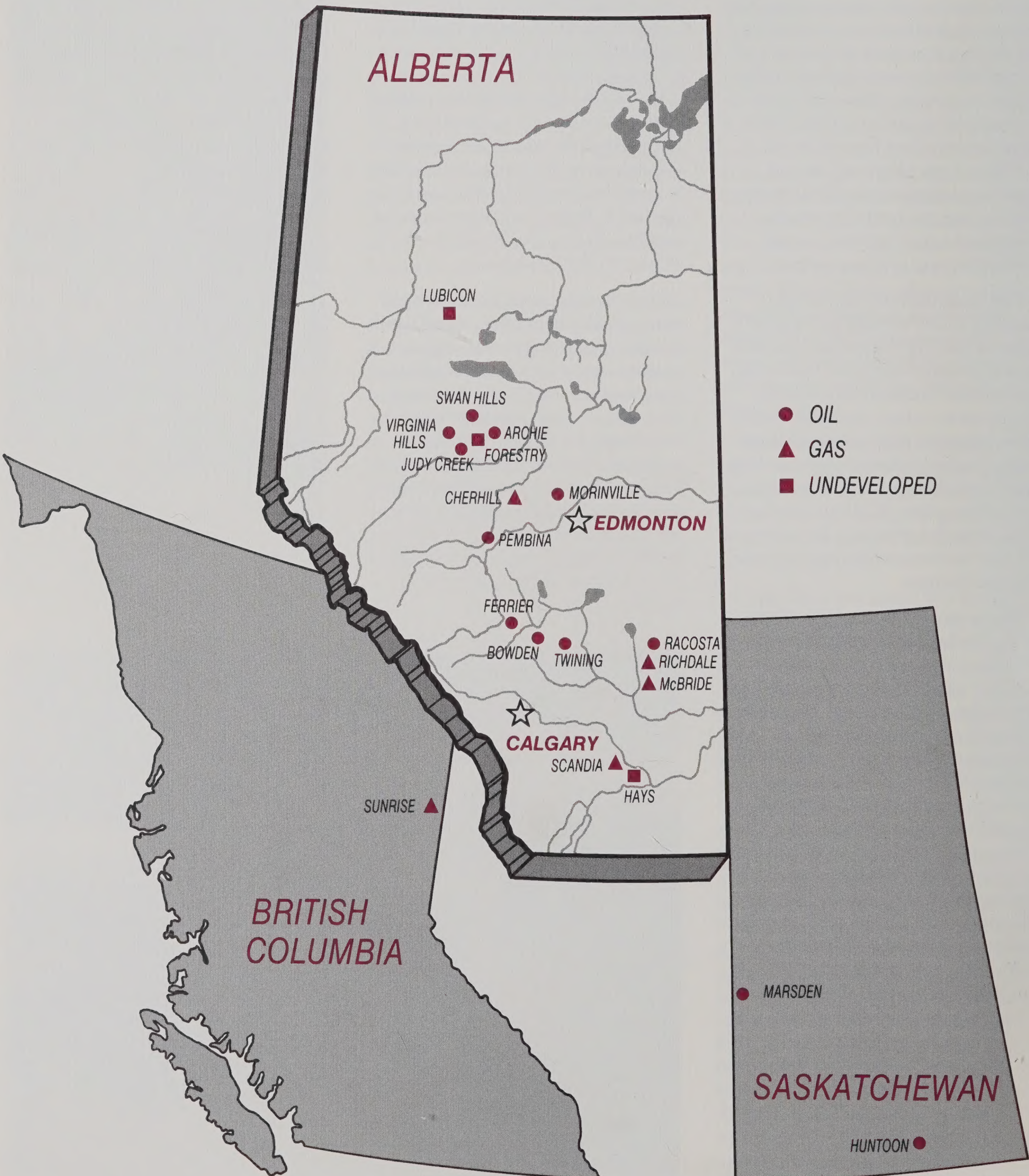
Submitted on behalf of the Board of Directors

Dobrowolski

Steven P. Dobrowolski
President

November 22, 1985

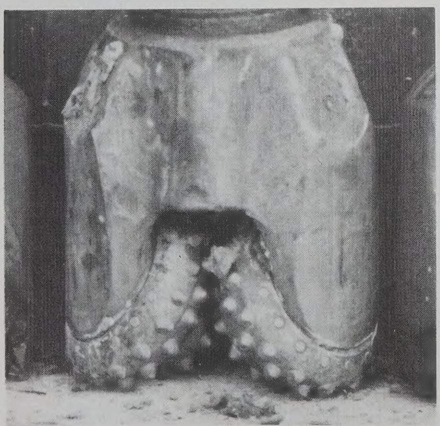
FIRST DEVONIAN LAND HOLDINGS WESTERN CANADA



EXPLORATION AND DEVELOPMENT

In contrast to 1984, First Devonian concentrated on drilling up portions of its existing holdings over the past fiscal year rather than adding substantially to our inventory of new prospects. Of the 18 wells drilled in Canada, 10 were completed as oil wells, four as gas wells, three were dry and abandoned and one was converted to a water injector. Our drilling activity was primarily conducted in the north central portion of Alberta in exploring and developing oil production as well as pursuing certain gas prospects in southern Alberta. We feel that our mixture of exploratory and development work will continue to expose the Company to the possible significant impact of an exploratory discovery while growth is still maintained through our lower risk development efforts. After a year of actively drilling up our holdings, First Devonian continues to have a significant inventory of development drilling with over $3,500,000 of low risk development prospects to be drilled on Company holdings. This inventory should assure the continued growth of First Devonian.

The relatively minor amount of funds invested in the United States was utilized mainly in development of existing discoveries. The Company participated in an additional 8 wells in the U.S.A. of which 5 were completed as oil producers.



CANADA

VIRGINIA HILLS, ALBERTA

From Prospect To Production

On November 30, 1983 First Devonian acquired two half-sections of land in Virginia Hills that the Company had requested be posted at a provincial Crown land sale for a total consideration of $72,000. Located on these lands were two abandoned oil wells which had produced for a short period of time in the early 1960's. It was First Devonian's intent to attempt to re-enter these wells and restore them to production. This prospect has developed from just the two possible re-entries to having the potential of being a 10 well field with reserves of over 6,714,000 barrels of oil in place, of which 2,230,000 barrels are estimated to be recoverable.

After completing the re-entry of the First Dev et al VirgHills 10-36-64-14 W5M well, and experiencing better than expected productivity, the Company decided to pursue what was perceived to be a more extensive feature. Other operators were also becoming interested in the area and drilled locations offsetting the Company's lands. Additional partners were found who would carry a portion of the Company's risk cost of drilling. Wells in the area average 9,500 feet in depth.

First Devonian farmed in on Section 31 and the west half of Section 32 to the immediate east of the original lands by drilling a successful test in 12-31-64-13 W5M. This well has averaged 94 barrels of oil per day since being put on production. Additional Company lands have since been acquired through three separate land purchases and one additional farmin.

The second well drilled in 4-6-65-13 W5M confirmed that a significant extension to the Virginia Hills Field had been found. The well has a capability in excess of an allowable of approximately 120 barrels of oil per day. The next location drilled was 2-6-65-13 W5M which was also successfully completed with a capability of producing 80 barrels of oil per day.

To complete the current land position a farmin location was drilled in 2-1-65-14 W5M which earned the Company an interest in an additional two sections of land. This well has just been placed on permanent production and is flowing at a rate of 450 barrels of oil per day. As with our 4-6 well it will be restricted to an allowable of approximately 120 barrels of oil per day.

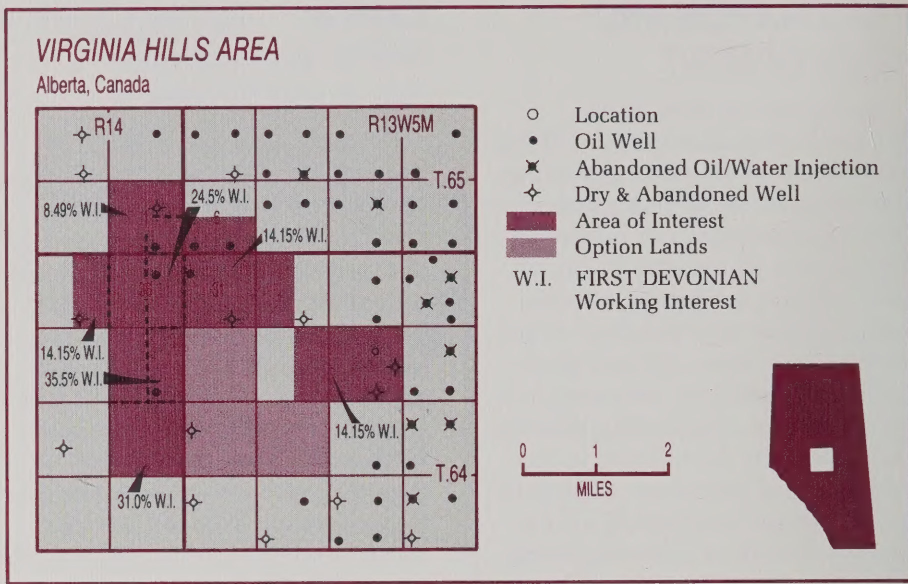
As at year end the Company held working interests varying from 8.5 to 35.5 percent in 8 sections of land in Virginia Hills and held another 3 sections under option. Our plans now call for the drilling of one well to earn an interest in the three section option block. This well will be drilled to a depth in excess of 10,000 feet and should be the most important exploratory well drilled by the Company during our next fiscal year. The well in 2-25-64-14 W5M was also re-entered and placed

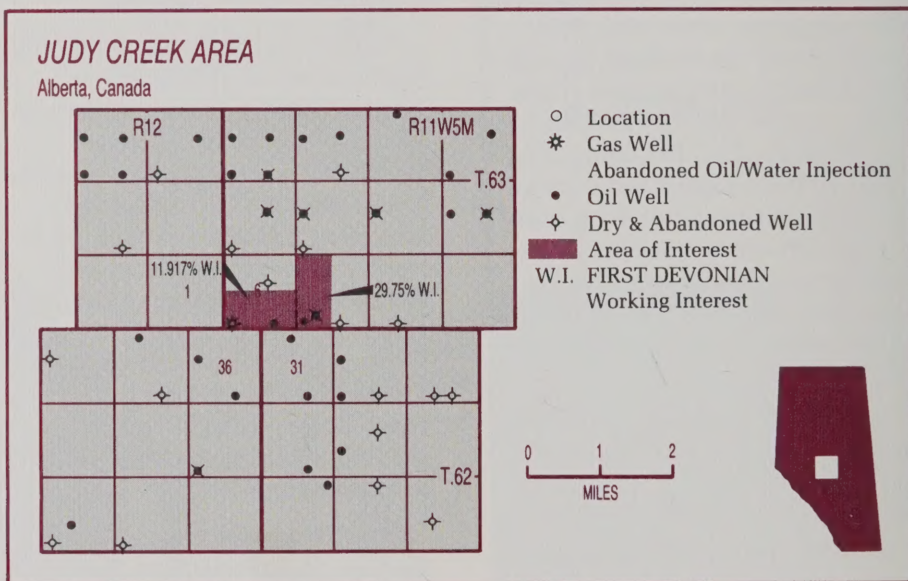
DRILLING RESULTS	CANADA		U.S.A.	
	1985	1984	1985	1984
Oil	10	4	5	2
Gas	4	0	0	0
Injector	1	0	0	0
Dry & Abandoned	3	0	3	11

on production and a well in 10-28-64-13 W5M has been cased, and is currently being completed as an oil producer.

First Devonian has actively pursued this new Virginia Hills oil discovery from its development as a prospect through to the production phase. First Devonian's operating philosophy has allowed the Company to aggressively pursue this prospect rather than being placed in a position of a passive partner and relying on others to pursue the play. Initial financial exposure in land and risked re-entry costs was $63,000, and since that time the Company has spent approximately $491,000. The current value of the property to the Company is $4,432,000 at a 15 percent discount factor. Significant upside still exists on our lands through future waterflood potential and the development of secondary zones.

One of the most serious obstacles to bringing our wells into production and realizing our economic projections for this area over the past year has been lack of accessibility primarily due to weather conditions. This has resulted in significant periods during which our wells have been shut-in thereby curtailing cash flow. Lack of accessibility has also caused much higher operating costs than normally expected, and delayed the field development. We have now determined that the size of this feature warrants pipelining the wells into a central battery and tying this facility into a main pipeline in the area. Savings will be realized through reduced downtime and lower operating expenses. It is anticipated that gross production from current wells will approach 480 barrels per day (77 barrels per day net) once pipelining is completed. Maximum productivity from Virginia Hills is now forecast to be 540 barrels per day in 1987 (87 barrels per day net) once development drilling is complete.





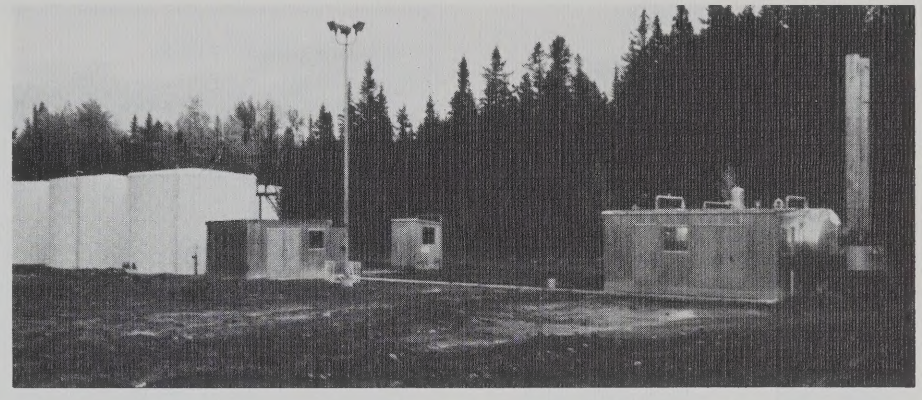
JUDY CREEK, ALBERTA

First Devonian has completed the drilling of the First Dev et al JudyS 2-6-63-11 W5M well which has been cased as a potential oil producer. This well confirmed the presence of a northerly extension to the Judy Creek South Field. The Company holds a 12 percent working interest in this test. Two wells immediately to the south of our lands have produced approximately 2,000,000 barrels of oil to date.

An original re-entry in 4-5-63-11 W5M was converted into a water injector by First Devonian and a custom treating plant has been constructed at the site by an independent operator who specializes in the service of treating produced fluids. The Company secured a 21% interest in the plant and disposal facility in exchange for the water disposal well and surface site. This should develop into a long term

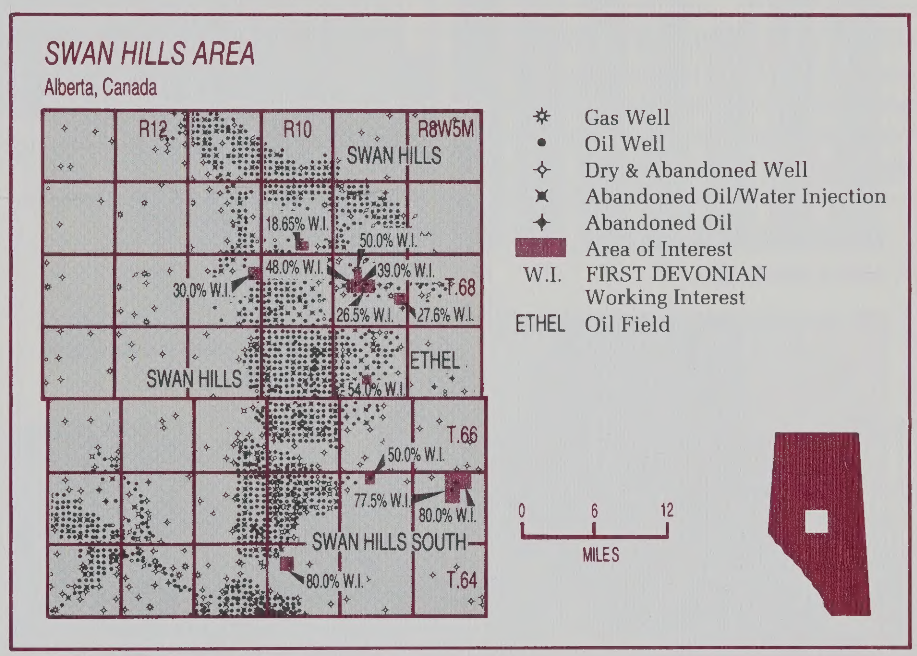
source of revenue for the Company and improves our ability to produce our wells in the area.

The 4-5 re-entry was offset by the First Dev et al JudyS 4-5B1-63-11 W5M well which produces approximately 40 barrels of oil per day. The Company holds a 29.75 percent working interest before payout and a 35.75 percent working interest after payout in this well.



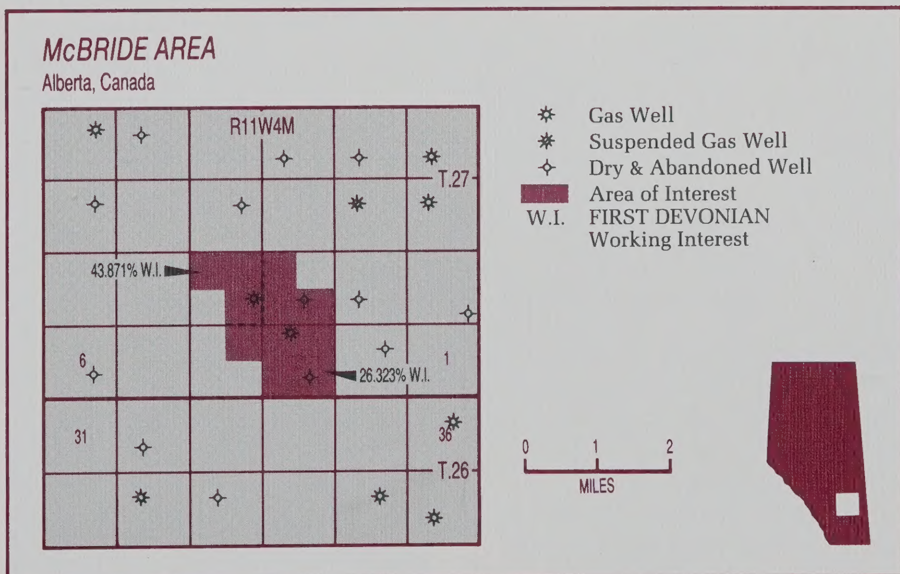
SWAN HILLS, ALBERTA

In comparison to the Virginia Hills Area which consists of a large contiguous land block covering a sizable new pool discovery, the Company's Swan Hills holdings are comprised of a series of smaller land parcels covering smaller isolated prospects. To date the Company has not drilled a well in this area but rather has done only re-entries in establishing our land position. First Devonian holds large working interests in Swan Hills ranging from 18.65 to 80 percent and we feel that our current net production from this area of 30 barrels per day will be increased substantially. With our past limited financial resources, we have concentrated on development of other properties during the past year, but we will now commence drilling operations in Swan Hills this winter.



McBRIDE, ALBERTA

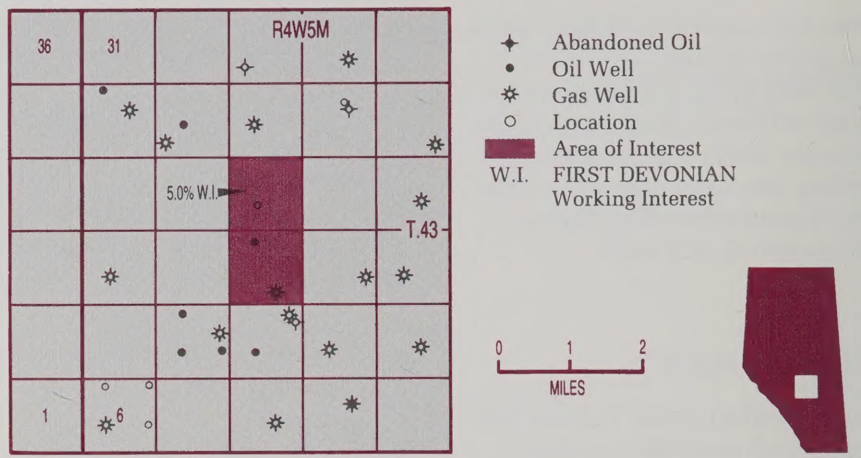
Two gas wells have been drilled on our McBride holdings (formerly the Berry Area) during the last year. Our working interest varies between 26.3 and 43.9 percent in the 2¾ sections that we now control. Negotiations are in progress to allow this property to come into production during the next year. Specific data as to production capabilities and reserves cannot be released at this time.



WILSON CREEK, ALBERTA

The bulk of the Company's previously developed shut-in gas reserves are in the Wilson Creek Area. While innumerable delays have been experienced in attempts to place this property on production, it now appears that the wells on our lands may come on stream during the next year. A location in 6-21-43-4 W5M is scheduled to be drilled this winter which should confirm the presence of additional reserves. While our working interest in this property is only 5 percent, the large reserve size and productivity of the lands still make this a significant property for First Devonian.

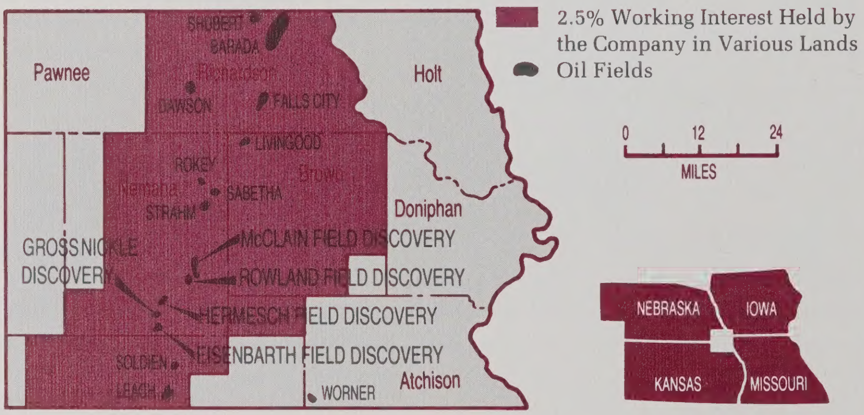
WILSON CREEK AREA
Alberta, Canada



LAND HOLDINGS

First Devonian's total land holdings now stand at 8,613 net acres. Our Canadian position grew by 78 percent to 7,113 net acres while U.S.A. holdings decreased by 70 percent to 1,500 net acres. This trend will continue as we acquire lands on new prospects and adjacent to our producing properties in Canada while relinquishing expiring leases in the U.S.A. This year marks the first time that our net land position in Canada has exceeded that of the U.S.A.

ONEIDA-BARADA AREA
Kansas & Nebraska, U.S.A.



U.S.A.
ONEIDA-BARADA, KANSAS AND NEBRASKA

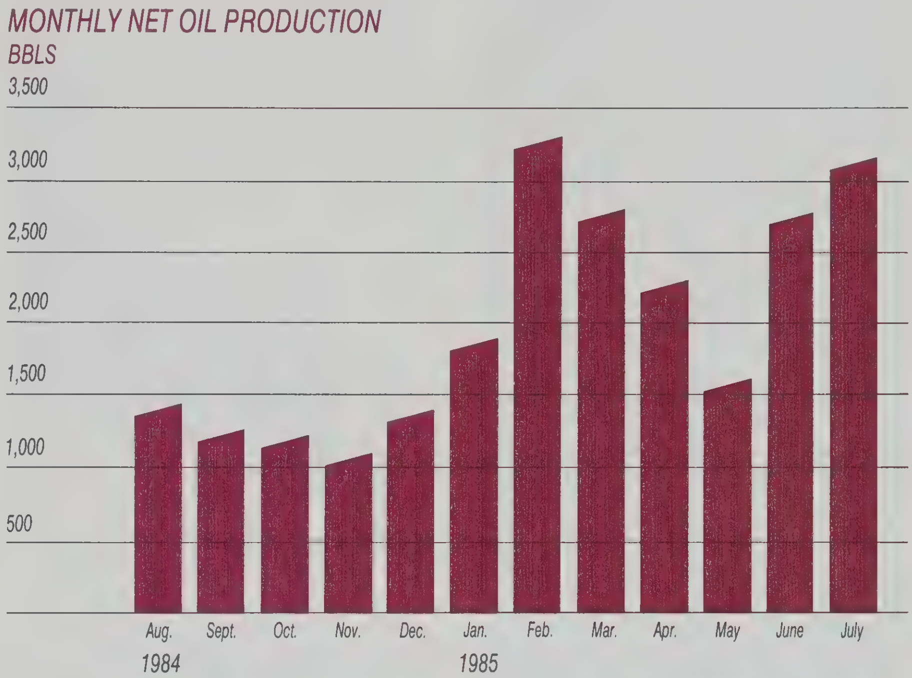
Average gross oil production from our Oneida-Barada holdings was 210 barrels per day during the past fiscal year. Two wells were drilled after year end on a new field discovery on our lands in which the Company participated as to its 2.5 percent working interest. Current development plans call for a total of 4 or 5 dual zone oil wells to be drilled on this feature. Expected production rates could more than double the production from this project to in excess of 500 barrels per day. Additional exploratory wells are scheduled to be drilled on seismically defined targets in this area.

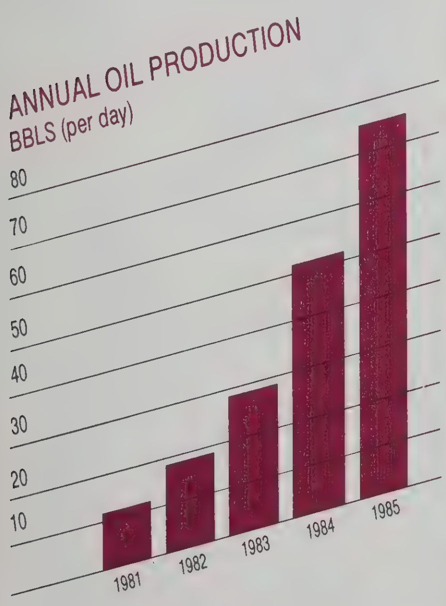
PRODUCTION

The Company continued to increase its production base in 1985. During the fiscal year, average daily oil production was 75.4 barrels per day, an increase of 45 percent over 1984. Gas production increased slightly to 171 Mcf per day.

Although the Company's oil production has steadily increased over the year, individual months have been erratic. The major factor influencing this capricious behavior has been the field transportation of our crude. In Virginia Hills and Swan Hills, weather determines whether we can truck our crude to market. A road construction project in the Virginia Hills area this summer and a major pipeline project planned for early 1986 should alleviate the inconsistencies in the Company's oil production.

The Company's existing wells have a net production capacity of approximately 150 barrels of oil per day. Obviously maintaining production at capacity would have a significant impact on the Company's financial performance.



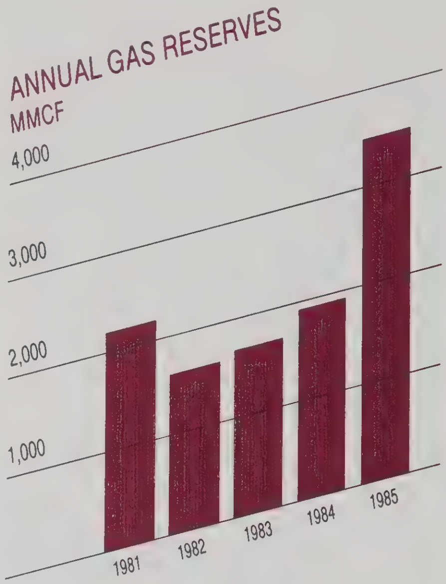


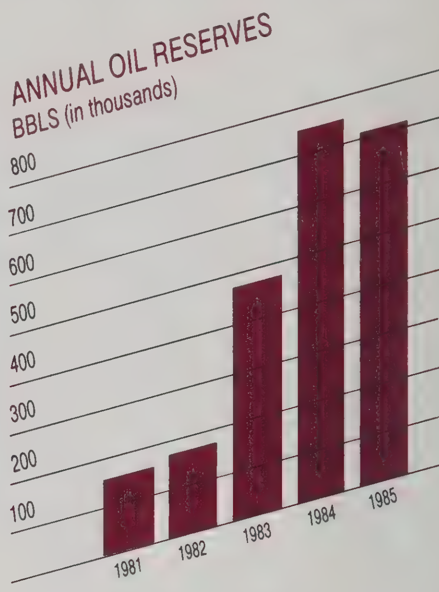
RESERVES

The total oil reserves decreased slightly to 710,400 barrels even though over 180,000 barrels of oil was added to the reserve base. Lower revisions in our existing wells along with 27,178 barrels of 1985 oil production balanced off the reserve additions. The two significant factors affecting the revisions were a more conservative appraisal from our independent engineering firm and an even more dramatic effect of lower predicted oil prices. The current 1985 price forecast reflects a significant decrease in future oil and gas pricing. These lower price forecasts dramatically curtail the productive economic life of the existing fields thereby reducing forecasted ultimate recoverable oil reserves.

The Company's gas reserves increased by 81 percent to 3,478 MMcf. The McBride Field discovery accounted for most of the increase. Future similar gas exploration projects in 1986 will hopefully allow for continued growth of the Company's gas reserves. The Company produced and sold 6.2 MMcf of gas during 1985. With full production from McBride and Wilson Creek in the late summer of 1986, the Company's net gas production could increase ten fold.

The value of the Company's oil and gas properties, undeveloped land and the Judy Creek processing plant, utilizing a 15% discount factor and 50 percent of probable reserve values is $2.81 per share. Proven reserves account for 78 percent of the Company's asset value.





OIL AND GAS RESERVES

As At July 31, 1985

Reserve Category:	Gas 10^3m^3	Gas MMcf	Oil 10^3m^3	Oil Barrels
Proven Producing	4 020	142	52.95	333,058
Proven Non-Producing	69 580	2,458	40.85	256,942
Probable	24 870	878	19.14	120,404
TOTAL	98 470	3,478	112.94	710,404

PRESENT VALUE OF OIL AND GAS ASSETS

As At July 31, 1985

Reserve Category:	Discount Factor ($000) 0	12	15	20
Proven Producing	$10,226	$ 5,455	$ 4,897	$ 4,197
Proven Non-Producing	14,891	5,011	4,193	3,242
Probable	8,851	2,939	2,408	1,783
Undeveloped Land And Plant	4,540	1,540	1,292	1,080
TOTAL ASSET VALUE	$38,508	$14,945	$12,790	$10,302
Asset Value Per Share*	$8.26	$3.27	$2.81	$2.28
Net Asset Value Per Share*	$7.47	$2.47	$2.01	$1.49

*Includes 50% of Probable Reserves

FINANCIAL REVIEW

An intensive capital expenditure program, additions to the equity base and increasing profitability were the highlights of First Devonian's 1985 fiscal year.

INCOME

Internally generated cash flow from operations was $515,633 (14¢ per share) which represents an increase of 58 percent over the 1984 amount of $326,499 (10¢ per share).

Net income in 1985 was up by 63 percent to $122,039 (3¢ per share) versus the 1984 net income of $74,897 (2¢ per share).

FINANCIAL POSITION

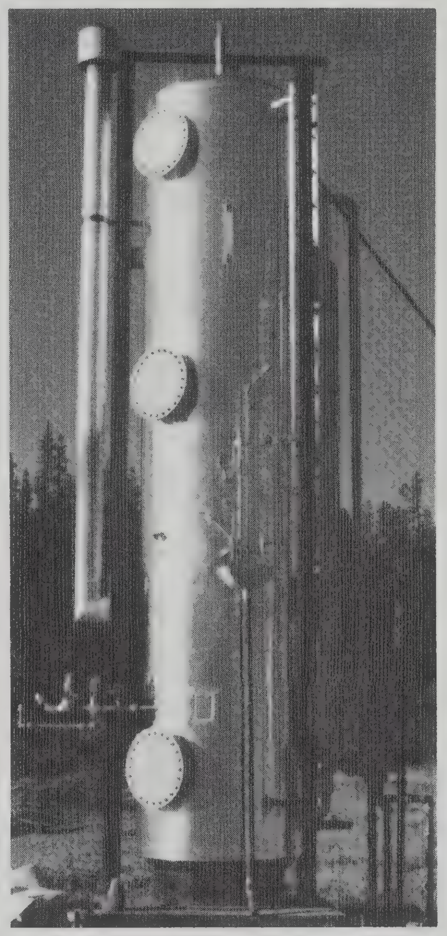
Capital expenditures in 1985 of $2,717,526 were financed 19 percent by internal cash flow, 18 percent by equity and 63 percent by debt. Although there has been an increase in the Company's debt, the major portion of the debt incurred relates to wells which were completed in the latter months of the 1985 fiscal year. The production capabilities and hence the cash flow potential of these wells is very significant to the Company. Due to access problems created by adverse weather conditions, oil from these wells could not be moved to market, therefore, the potential cash flow impact of these wells has not been reflected in the financial statements.

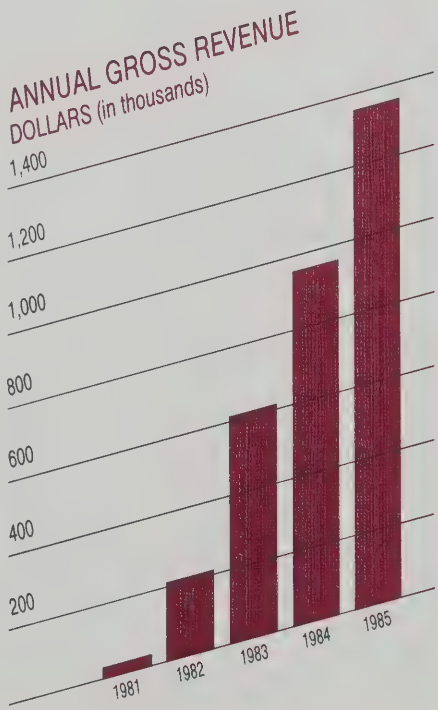
First Devonian successfully completed a private placement of equity during 1985 by issuing 625,000 flow-through shares for a cash consideration of $500,000.

1986 FISCAL PROJECTIONS

The upcoming year should prove to be both interesting and profitable. The attainment of internally generated cash flow in the amount of 20¢ per share is certainly achievable. Also, with the Company's healthy excess of taxation pools, the possibility of additional flow-through share equity financing is very attractive. Another potential means of equity financing is the newly announced Alberta Stock Savings Plan which favours companies in our position.

With this cash flow growth, and the equity financing opportunities, it appears as though First Devonian will be able to accomplish the dual feat of continuing intensive capital expenditures as well as reducing debt.





AUDITORS' REPORT

To the Shareholders
First Devonian Explorations Ltd.

We have examined the consolidated balance sheet of First Devonian Explorations Ltd. as at July 31, 1985 and the consolidated statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at July 31, 1985 and the results of its operations and changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied, after giving prospective effect to the change in method of foreign currency translation as described in note 1(h) to the financial statements, on a basis consistent with that of the preceding year.

Calgary, Alberta
November 19, 1985

COLLINS BARROW
CHARTERED ACCOUNTANTS

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED JULY 31, 1985

	1985	1984
Working capital was provided by		
Current operations	$ 515,633	$ 326,499
Increase in long-term debt	400,000	475,000
Petroleum incentive grants	444,147	127,515
Issuance of share capital	556,000	96,840
Reclassification of long-term accounts receivable	62,722	—
Decrease in notes receivable	—	242,000
	1,978,502	1,267,854
Working capital was used for		
Acquisition of property and equipment	3,161,673	1,135,852
Issuance of notes receivable	56,000	—
Share capital issuance costs	40,969	—
Increase in long-term accounts receivable	—	3,295
Net assets acquired on purchase of subsidiary	—	328,800
	3,258,642	1,467,947
Decrease in working capital	(1,280,140)	(200,093)
Working capital deficiency, beginning of year	(440,581)	(240,488)
Working capital deficiency, end of year	$(1,720,721)	$ (440,581)

CONSOLIDATED BALANCE SHEET

JULY 31, 1985

	1985	1984
ASSETS		
Current assets		
Accounts receivable	**$1,595,282**	$ 317,191
Notes receivable (note 2)	**65,250**	9,250
Property and equipment (note 3)	**6,853,034**	4,457,902
Long-term accounts receivable	**—**	62,722
	$8,513,566	$4,847,065
LIABILITIES		
Current liabilities		
Bank overdraft	**$ 217,202**	$ 26,870
Accounts payable and accrued liabilities	**3,098,801**	730,902
	3,316,003	757,772
Long-term debt (note 4)	**1,625,000**	1,225,000
Deferred income taxes	**133,300**	62,100
SHAREHOLDERS' EQUITY		
Share capital (note 5)	**3,630,577**	3,115,546
Deficit	**(191,314)**	(313,353)
	3,439,263	2,802,193
	$8,513,566	$4,847,065

Approved on behalf of the Board,

, Director

, Director

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

YEAR ENDED JULY 31, 1985

	1985	1984
Revenue		
Oil and gas sales	**$1,178,623**	$ 879,604
Alberta royalty tax credit	**66,692**	34,913
Operator's fees and other	**124,574**	56,245
	1,369,889	970,762
Expenses		
Production	**374,468**	221,839
Royalties	**187,539**	125,787
General and administrative	**183,943**	195,351
Interest on long-term debt	**108,306**	101,286
	854,256	644,263
Working capital generated from operations	**515,633**	326,499
Charges not requiring working capital		
Depletion	**253,000**	171,700
Depreciation	**69,394**	33,902
Deferred income taxes	**71,200**	46,000
	393,594	251,602
Net income	**122,039**	74,897
Deficit, beginning of year	**(313,353)**	(388,250)
Deficit, end of year	**$ (191,314)**	$(313,353)
Net income per share	**$ 0.03**	$ 0.02
Cash flow per share	**$ 0.14**	$ 0.10

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 1985

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company are stated in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada which, in the case of the Company, conform in all material respects with International Accounting Standards. The significant accounting policies are summarized below:

a) Principles of consolidation

The consolidated financial statements include, in addition to the accounts of the Company, the accounts of its wholly-owned subsidiaries, First Devonian Explorations Inc., and Barracuda Petroleum Inc.

b) Exploration and development costs

The Company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and the development of oil and gas reserves are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities. Proceeds on minor property sales are credited to the net book value of the property and equipment. Gains or losses on major property sales are normally recognized in the statement of income.

Exploration and development costs are allocated to one cost centre, namely, North America (Canada and the United States).

Costs capitalized in the cost centre are depleted on the composite unit-of-production method based on estimated proven oil and gas reserves as determined by independent and Company engineers.

The Company employs a ceiling test annually whereby capital costs would be written off should they exceed the present value of future net revenues from estimated production of proven reserves, together with undeveloped land at the lower of cost and net realizable value.

c) Depreciation

Lease and well equipment are depreciated on the composite unit-of-production method. Other equipment is depreciated on the declining balance method at 20% per annum.

d) Joint venture accounting

Substantially all of the exploration and production activities of the Company are conducted jointly with others and accordingly these consolidated financial statements reflect only the Company's proportionate interest in such activities.

e) Net income per share

Net income per share has been calculated using the weighted average number of common shares of 3,796,234 outstanding during the year. The exercise of share options would not be dilutive.

f) Cash flow per share

Cash flow per share refers to working capital generated from operations, and it has been calculated using the weighted average number of common shares outstanding during the year. The exercise of share options would not be dilutive.

g) Petroleum Incentive Program

Petroleum incentive grants earned under Petroleum Incentive Programs have been deducted from the cost of the related asset.

h) Foreign currency translation

During the year, the Company changed its method of translating accounts of its foreign wholly-owned subsidiaries from the current - non-current method to the temporal method. Foreign currency accounts and operations are translated to Canadian dollars on the following basis: monetary items at the rate of exchange at the year-end; other assets and liabilities at the historical rate of exchange. The items in the statement of income are translated at the average rates of exchange prevailing during the year except for depletion and depreciation, which are translated at the same rates as used for the related assets. Material translation gains and losses on monetary items are included in the statement of income. The change has been applied on a prospective basis.

i) Flow Through Shares

The Company has incurred exploration costs under certain subscription agreements whereby the income tax benefits of such costs are retained by the subscribers. Shares issued under such agreements are carried at a value based on actual monies received while related property and equipment acquired are carried at laid down cost.

2. NOTES RECEIVABLE

Pursuant to share purchase options exercised, the Company has advanced funds to certain employees to enable them to purchase common shares from treasury. The advances are secured by promissory notes, are non-interest bearing, and are due on dates varying between 1986 and 1988.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	1985			1984
	Cost	Accumulated Depletion and Depreciation	Net	Net
Petroleum and natural gas leases and rights including exploration and development thereon	$6,356,399	$589,900	$5,766,499	$3,785,980
Lease and well equipment	1,149,389	98,700	1,050,689	626,936
Other equipment	75,561	39,715	35,846	44,986
	$7,581,349	$728,315	$6,853,034	$4,457,902

4. LONG-TERM DEBT

Long-term debt consists of a bank production loan which bears interest at one percent over a Canadian chartered bank's prime lending rate and which is secured by a general assignment of book debts, assignment of accounts receivable, assignment of shares of the Company's subsidiaries and certain oil and gas properties. The bank has indicated that there are no fixed terms of repayment and that no repayment of principal will be required in the period ended December 31, 1985. An annual review of the bank production loan will occur on January 1, 1986.

5. SHARE CAPITAL

a) Authorized

As at July 31, 1985 authorized share capital consisted of an unlimited amount of one class of shares without nominal or par value.

As at July 31, 1984 authorized share capital consisted of 5,000,000 common shares without nominal or par value.

	Number	Stated Value
b) Issued		
Balance, July 31, 1984	3,400,967	$3,115,546
Issued to employees pursuant to stock option plan	100,000	56,000
Issued pursuant to flow-through share agreement, net of issuance costs	625,000	459,031
Balance, July 31, 1985	4,125,967	$3,630,577

c) Stock option plan

As at July 31, 1985, 132,000 shares have been reserved under the Company's stock option plan. Options outstanding consist of 80,000 shares exercisable at $0.56 per share expiring in 1986, 50,000 shares exercisable at $0.60 per share expiring in 1987 and 2,000 shares exercisable at $0.51 per share expiring in 1987.

d) Continuance

Effective January 15, 1985, the Company was continued under the Business Corporations Act of Alberta.

6. RELATED PARTY TRANSACTIONS

a) The Company has a participation plan whereby certain officers and employees are allowed to participate up to a total of 10% of the Company's working interest in new ventures. Participation is on standard industry terms with the officers and employees required to finance their working interests.

As at July 31, 1985, certain officers and employees owed the Company $98,671 in connection with working interest participation. Subsequent to July 31, 1985, these amounts have been repaid entirely.

b) During the year, the Company entered into flow through share agreements with certain directors of the Company and certain individuals related to the directors, under which the Company received aggregate consideration of $100,000 for issuance of 125,000 shares.

7. SEGMENTED INFORMATION

The Company operates exclusively in the oil and gas industry and as such is defined as having a dominant industry segment.

The Company's exploration, development and production activities can be geographically segmented as follows:

	1985		
	Canada	United States	Total
Oil and gas sales	$1,113,777	$ 64,846	$1,178,623
Operating profit	$ 655,068	$ 28,240	$ 683,308
Operator's fees and other			(124,574)
General and administrative			183,943
Interest on long-term debt			108,306
Depletion			253,000
Depreciation			69,394
Deferred income taxes			71,200
			561,269
Net income			$ 122,039
Property and equipment	$5,005,204	$1,847,830	$6,853,034
Other	1,634,439	26,093	1,660,532
Total identifiable assets	$6,639,643	$1,873,923	$8,513,566

	1984		
	Canada	United States	Total
Oil and gas sales	$ 772,629	$ 106,975	$ 879,604
Operating profit	$ 504,362	$ 62,529	$ 566,891
Operator's fees and other			(56,245)
General and administrative			195,351
Interest on long-term debt			101,286
Depletion			171,700
Depreciation			33,902
Deferred income taxes			46,000
			491,994
Net income			$ 74,897
Property and equipment	$2,701,433	$1,756,469	$4,457,902
Other	304,179	84,984	389,163
Total identifiable assets	$3,005,612	$1,841,453	$4,847,065

8. SUBSEQUENT EVENTS

Subsequent to July 31, 1985 the following related agreements were entered into:

a) The Company entered into an agreement to acquire all of the outstanding shares of 497394 Ontario Ltd. for a consideration of approximately $1,265,000. The assets of 497394 Ontario Ltd. consist of petroleum and natural gas properties.

b) The Company entered into an agreement with First Devonian 1985 Limited Partnership whereby the Partnership will incur up to $1,000,000 of qualifying expenditures solely for the consideration of the issuance to them of up to 1,000,000 common shares of the Company. It is anticipated that approximately $700,000 of qualifying expenditures will be incurred, resulting in the issuance of 700,000 common shares.

c) The Company entered into an agreement with First Devonian 1986 Limited Partnership whereby the Partnership will incur approximately $2,090,000 of qualifying expenditures solely for the consideration of the issuance of 2,090,000 common shares of the Company. This agreement is subject to shareholder and regulatory approval.

FIVE YEAR CORPORATE PROFILE

	1985	1984	1983	1982	1981
FINANCIAL					
Gross Revenues	**$ 1,369,889**	$ 970,762	$ 605,889	$ 204,544	$ 28,181
Operating and Royalties	**562,007**	347,626	249,592	85,650	8,614
General and Administrative	**183,943**	195,351	192,150	145,258	165,043
Interest	**108,306**	101,286	58,981	11,978	30,900
Cash Flow	**515,633**	326,499	105,166	(38,342)	(176,376)
Net Income (Loss)	**122,039**	74,897	(34,224)	(113,481)	(177,094)
Cash Flow per Share	**.14**	.10	.03	(.01)	(.09)
Net Income (Loss) Per Share	**.03**	.02	(.01)	(.04)	(.09)
Working Capital (Deficiency)	**(1,720,721)**	(440,581)	(240,488)	(194,070)	539,492
Long-Term Debt	**1,625,000**	1,225,000	750,000	—	—
Capital Expenditures	**2,717,526**	1,008,337	899,986	607,514	1,000,836
Shareholders' Equity	**3,439,263**	2,802,193	2,630,456	2,555,180	2,391,104
Total Assets	**8,513,566**	4,847,065	4,105,425	3,051,247	2,737,981
RESERVES					
Proved and Probable					
Oil — Bbl	**710,404**	751,600	473,585	171,900	159,000
— 10^3m^3	**112.9**	119.6	75.3	27.3	25.3
Gas — MMcf	**3,478**	1,920	1,709	1,618	2,220
— 10^3m^3	**98 470**	54 381	48 396	45 800	62 300
OPERATIONS					
Daily Oil Production — Bbl	**75.4**	51.80	28.10	18.20	11.60
Daily Oil Production — M^3	**11.9**	8.24	4.47	2.89	1.84
Daily Gas Production — Mcf	**171.0**	161.00	161.00	129.00	129.00
Daily Gas Production — 10^3m^3	**4.8**	4.56	4.56	3.65	3.65
LAND HOLDINGS					
Canada — Net Acres	**7,113**	3,986	3,368	2,255	1,061
Canada — Net Hectares	**2 878**	1 612	1 362	902	425
U.S.A. — Net Acres	**1,500**	8,812	10,812	10,402	17,611
U.S.A. — Net Hectares	**607**	3 525	4 325	4 161	7 044
PRESENT VALUE OF FUTURE PRODUCTION					
15% Discount Factor					
Proven Reserves	**9,090,000**	8,246,300	6,429,200	3,445,000	
Probable Reserves	**2,408,000**	1,389,000	1,381,800	1,307,500	
TOTAL	**$11,498,000**	$9,635,300	$7,811,000	$4,752,500	
Number of Employees	**5**	5	4	4	3

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